Autumn Pre-Budget Statement

1983

Ontario

The Honourable Larry Grossman, Q.C.
Treasurer of Ontario
and
Minister of Economics

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December 15, 1983

PREFACE

This Statement outlines the issues that the Government will have to deal with in the 1984 Ontario Budget. Suggestions from all citizens of our province are welcome.

Hon. Larry Grossman, Q.C.
Treasurer of Ontario
Minister of Economics

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I INTRODUCTION

Mr. Speaker, I wish to present to this Assembly a pre-budget Statement.

This initiative represents a new and innovative approach to public policy development in Ontario.

My predecessors established an important process of pre-budget consultation by meeting with many individuals and groups. To facilitate a full exchange of ideas and information, we are continuing this successful tradition and expanding the scope of our discussions. We are opening up the budget process to Members of this Assembly, interested groups and the public at large.

This Statement presents an economic forecast for 1984 and sets out the imperatives for successful adjustment to world-wide economic transformation. It analyzes our current fiscal circumstances and details major transfer payments for 1984. Finally, it provides a revenue forecast and evaluates appropriate deficit levels.

Mr. Speaker, we believe that those who wish to participate in the consultative process will benefit from having access to this information.

We now have in place the framework for meaningful and productive discussions on fiscal, economic and social policy in Ontario.

I am confident that this more open process will enable us to produce budgets which fully reflect the values and goals of our people.

No government is more determined to meet the economic and social challenges ahead than the Government of Ontario, under the progressive and sensitive leadership of our Premier, the Honourable William G. Davis.

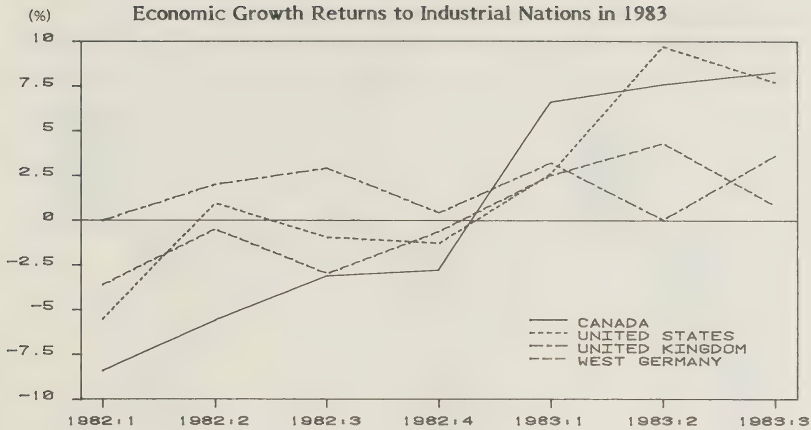
II ON THE PATH OF RECOVERY

Current Economic Performance

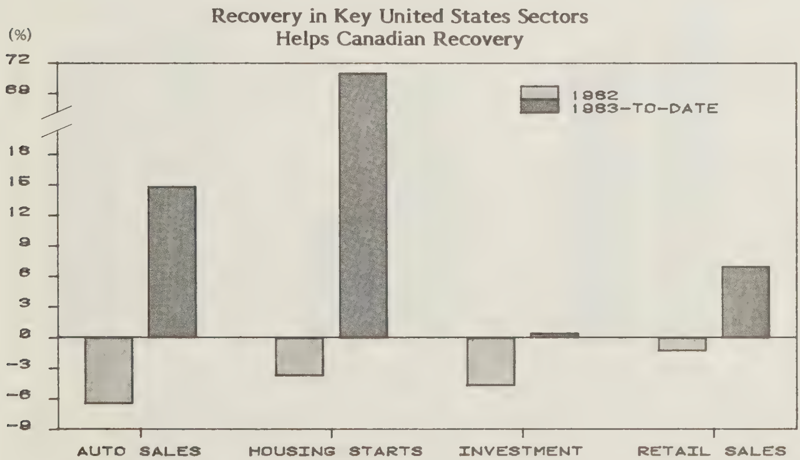
Over the past year, economic recovery in Ontario has strengthened and gained momentum. In employment, we have regained almost 90 per cent of the ground lost during the recession. Consumer confidence has also risen steadily during 1983. The major areas of strength at present are those typical at this stage of an upturn -- consumer spending and the building up of inventories run down during the recession. However, there are still four areas of concern. Despite relatively rapid employment growth, unemployment rates are projected to remain high. Investment, particularly in plant construction, has been slow to recover. Inflation also remains a cause for concern. While the rate of inflation is half what it was a year ago, inflationary expectations are still high. Finally, the economy remains vulnerable to a rise in interest rates in response to international financial developments.

Economic trends in Ontario are closely linked to those in the rest of Canada and to international developments, particularly in the United States. This is a result of the relative importance in Ontario of industries that engage heavily in trade with other jurisdictions.

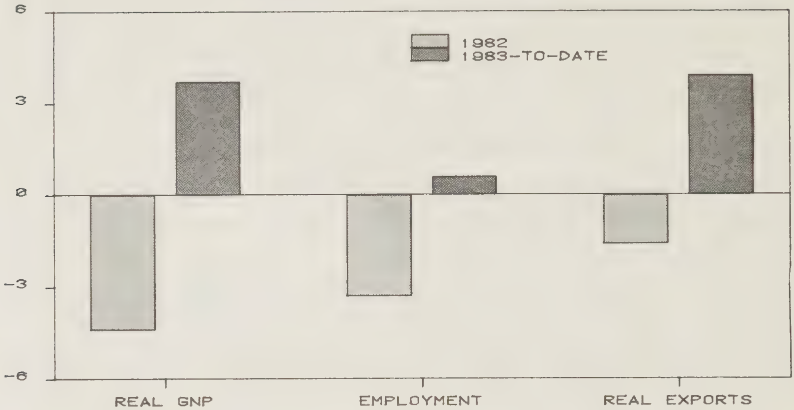
The economies of most industrialized nations are recovering from last year's recession. The turnaround has been most significant in North America, although fortunes have also brightened elsewhere. While the rebound has been rapid, the world appears to be settling into a slower and more stable pattern of economic growth. This steadier pace may well help avoid the build up of inflationary pressures and thus contribute to a more sustained expansion.



There have been very favourable developments this year in those key United States sectors that have a direct impact on Ontario's economy. For example, there has been a sustained pick up in auto sales and in housing starts. Business investment has also revived and retail sales have experienced steady growth.

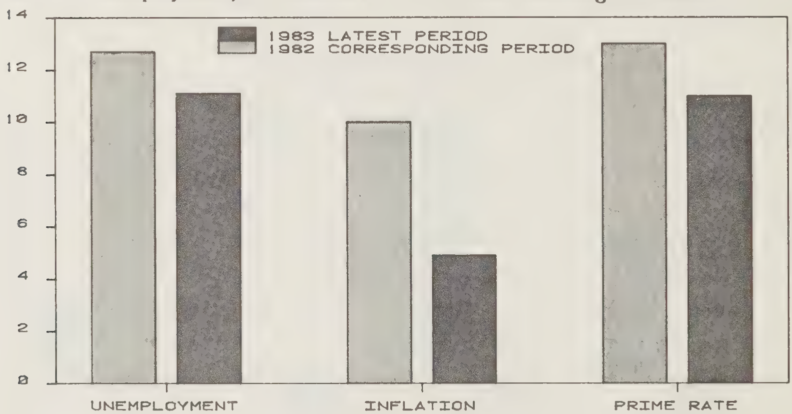


(%) **Canadian Recovery Underway**



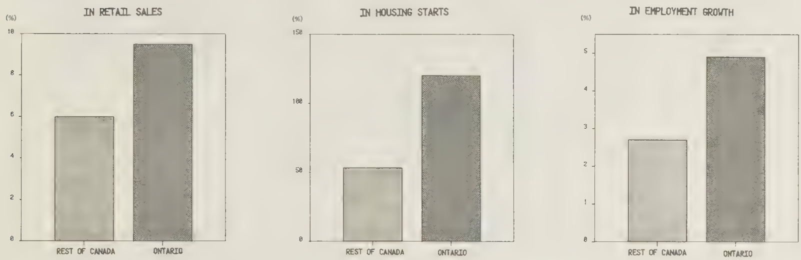
The Canadian economy turned around in early 1983 and growth has continued since. Employment growth has been rapid through the year, while inflation has decelerated.

(%) **Unemployment, Inflation and Interest Rates Declining in Canada**



Ontario has benefitted from both the international economic resurgence and from the recovery in the rest of Canada. Several factors, including our diversified economic structure, have caused the pace of recovery to be faster in Ontario than in the rest of Canada. Retail sales, housing starts and employment growth have all been stronger in the province, and 196,000 jobs have been created in the twelve months since November 1982.

In Key Indicators, Ontario Outpaces Rest of Canada



Our broadly-based recovery includes strength in agriculture, forestry, mining, services and manufacturing.

In the agricultural sector, realized net farm income is expected to increase by 10.6 per cent this year.

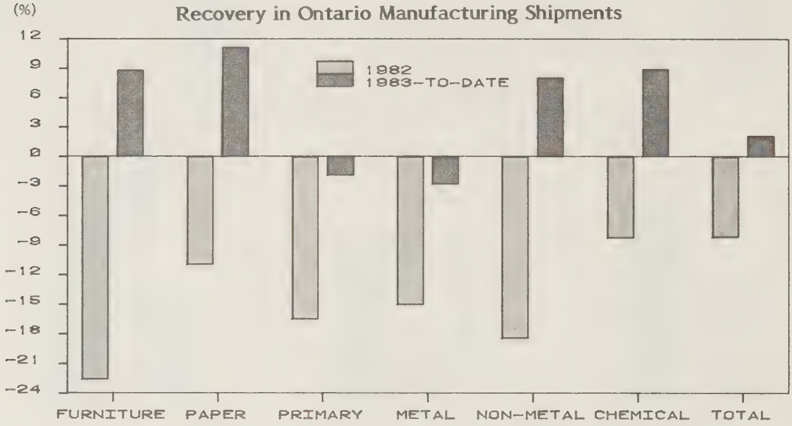
In forestry, real output increased at a rate of over 28 per cent in the first half of 1983.

The mining sector followed a similar pattern, with real output increasing at a 46 per cent rate in the same period.

In the service industries, an increasingly important sector of the economy, 101,000 jobs have been created since November 1982.

The manufacturing sector, which was hard hit by the recession, is benefitting from the recovery. Our total automotive trade surplus with the United States in 1983 will exceed the surplus of 1982, which was the first since 1972. The turnaround has been significant in the paper, chemicals, non-metallic

minerals and furniture groups, and performance in primary metals and metal fabricating industries has also improved. Overall, manufacturing employment in November 1983 was 79,000 above year-earlier levels.



The May 1983 Budget made a substantial contribution to the recovery. Budget measures, including the retail sales tax exemption on furniture and appliances and our expanded job creation programs, helped to stimulate economic activity.

Economic Outlook for 1984

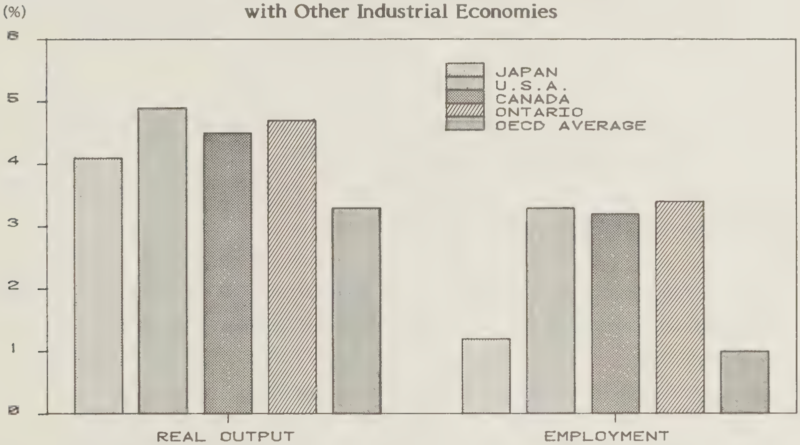
I would like to present our current assessment of the economic outlook for 1984. Until now, Treasury's economic projections have been presented as part of the Provincial Budget. As such, they have reflected policy changes in that document.

By providing this information now, we are establishing the framework for a more constructive exchange of views on budget policy to improve economic momentum next year.

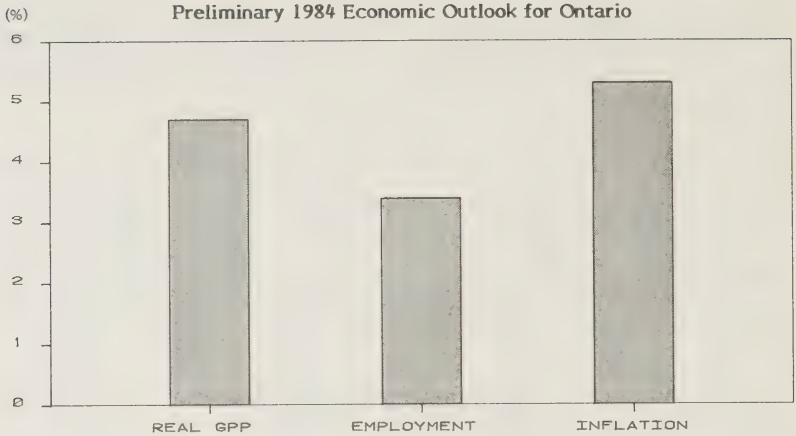
I should emphasize, however, that the outlook we are presenting here assumes no change in policy direction at either the federal or provincial level. There will undoubtedly be new developments in Canada over the next several months, and international circumstances may also change.

Mr. Speaker, we project that in 1984 real output in Ontario will grow at the rate of 4.7 per cent. This is somewhat higher than the projected rate for the rest of Canada, but a little lower than the growth rate in the United States. I have attached a chart on these projections which shows that Canada and Ontario will significantly outperform the combined nations of the Organization for Economic Cooperation and Development (OECD).

1984 Ontario Outlook Compares Favourably with Other Industrial Economies



Our GPP growth in 1984 will be driven by stronger consumer spending, inventory rebuilding and a modest increase in machinery and equipment investment.

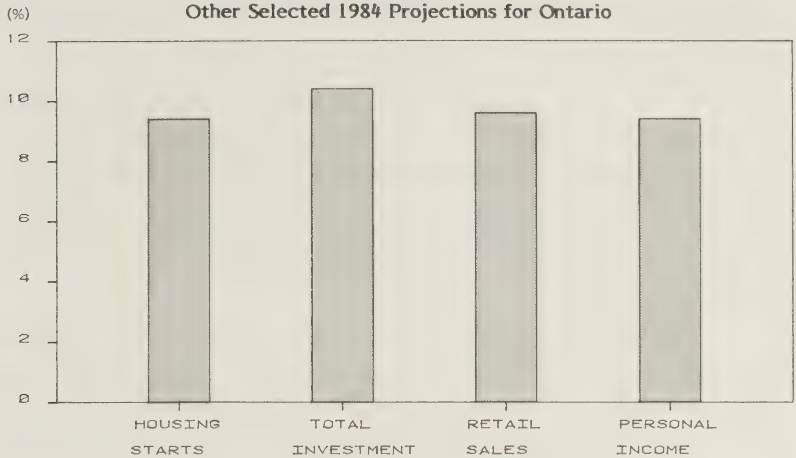


The consumer price index is expected to increase by 5.3 per cent. While this is an improvement over the past several years, let me say, clearly and explicitly, 5.3 per cent is still much too high. There is still cause for concern about Canada's international competitiveness.

Wage increases will and must be moderate in 1984. However, consumer spending will remain relatively strong. Retail sales will rise 9.6 per cent, as a significant increase in the number of income earners helps generate a 9.4 per cent increase in the total personal income of Ontarians.

Total investment -- that is, investment in plant and equipment and in housing -- is expected to increase by 10.4 per cent in 1984. The growth, however, is likely to come entirely from investments by business in machinery and equipment and from housing investment. Housing starts are forecast to increase to 58,000 units. However, the outlook for non-residential construction projects remains very weak through 1984.

Other Selected 1984 Projections for Ontario



Appendix A to this Statement highlights the performance of key sectors of the provincial economy.

III INVESTING IN ECONOMIC TRANSFORMATION

Economic recovery, then, is well underway. However, we continue to confront a major transformation of the economy. Traditional patterns of employment, skill requirements, investment and industry growth are changing dramatically. Each has profound implications for the structure of our economy, our public and private institutions and our individual work and life-styles. Budget and economic policies must be directed at facilitating and managing these changes.

This transformation is caused by many factors. High real rates of interest are playing an important role. In addition, rapid introduction and dissemination of new technologies, increased foreign competition, growing protectionism and a still rapidly growing and changing labour force are all interacting to produce a critical mass of economic change.

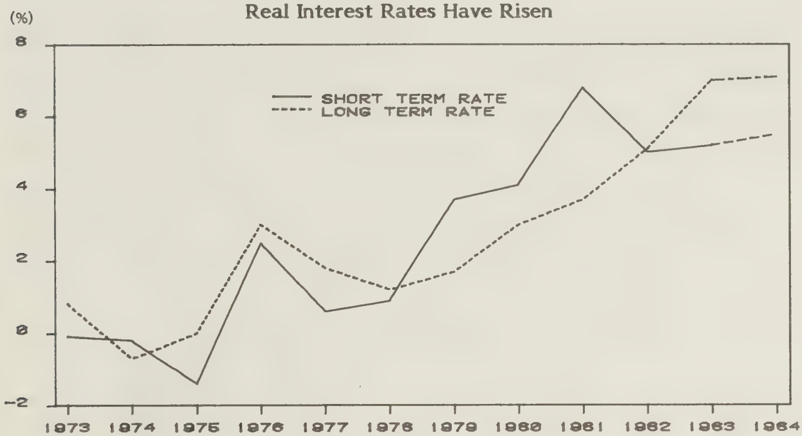
The most significant changes are occurring in the areas of business organization, new technologies and human resources. The world is fast becoming a single marketplace. And this is changing the industrial structure of the world. Mass production goods increasingly are being made in the lowest-cost countries of the Third World. At the same time, the comparative advantage of industrialized jurisdictions is shifting into high value-added financial, scientific and business services on the one hand, and precision-manufactured, custom-tailored and technology-driven products on the other. Economic policy must build on these strengths.

While high-volume, standardized goods production is rapidly becoming the domain of the newly-industrializing countries, sound economic policy can ensure that this does not mean the disappearance of such industries in mature industrial countries. We must help these industries to restructure toward higher value-added and technologically more sophisticated products -- for example, specialty steels and chemicals, advanced machine tools and precision-engineered auto components.

High real rates of interest have slowed the growth rates of traditional, interest-sensitive industries. However, they will also accelerate the introduction of new technologies, particularly those that save capital. They are already

encouraging the introduction of new inventory cost cutting measures. In turn, the improvement in inventory control techniques will alter the location of suppliers relative to assembly plants, which will, in itself, change the industrial landscape. Similarly, the high cost of financial capital has led to a virtual revolution in financial products for both business and individuals. Again, this has profoundly changed the competitive environment of our financial institutions.

Real Interest Rates Have Risen

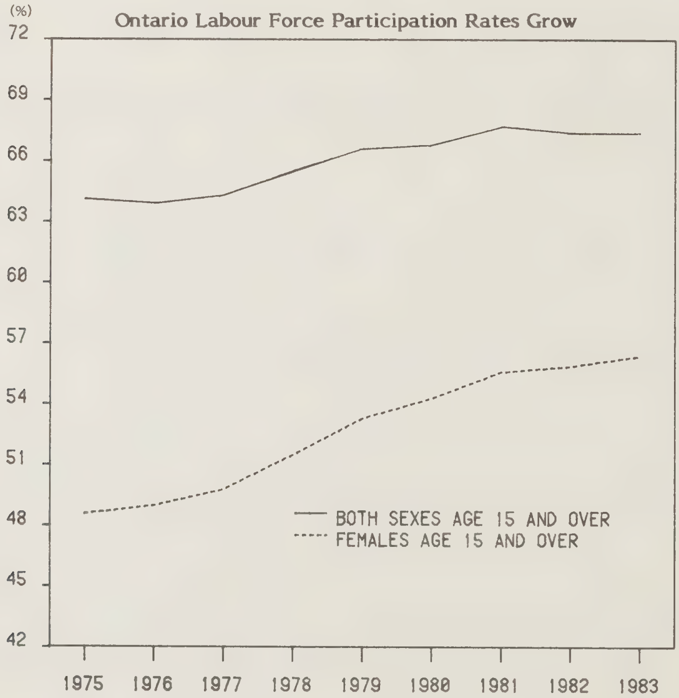


These are all permanent changes. They will produce significant improvements in the productive use of capital. Each will lead to a ripple of further changes in the economy, including employment dislocation and relocation. In every sector of the economy, businesses will have to adjust or be left behind. Budget policy must assist in this adjustment.

High interest rates have led to high unemployment throughout the industrialized world. This in turn has heightened international competition and increased protectionism as every nation attempts to increase exports, reduce imports and create jobs. Each has made the international economic and political environment more challenging. For example, high interest rates and recession have made Third World debtor nations more determined to increase exports to service their foreign debt. Similarly, their austerity programs have led to import restrictions which increase the difficulties of selling even high technology products in their markets.

The United States, too, is in the throes of an industrial-regional transformation. Several observers have pointed to the decline of some heavy industries in the United States, the rise of high technology and service employment, the increasing openness to foreign trade and investment and the population and industrial shifts from the North East and North Central areas to the South and West. These trends have been evident for some time, but they have been accelerated over the past few years by high real rates of interest, by an overvalued dollar, by the defense build-up and by regulatory reform. As the political process in Washington accommodates and adjusts to these transformations, there will inevitably be profound consequences for Canadian industry and Canadian public policy.

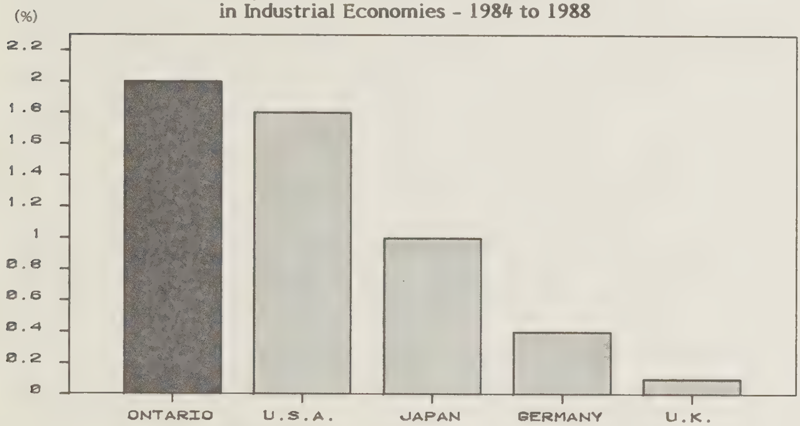
There is also an internal transformation occurring in our own work force. The labour force participation rate of women has risen from 38 per cent in 1966 to 56 per cent in 1982. The current rate is over 70 per cent for women aged 25 to 54.



While there are a host of issues which face women today, among the most serious are those of economic opportunity and participation. My colleague, the Honourable Robert Welch, and I are addressing these issues related to women in the economy. Women must have the opportunity to make economic choices based on adequate knowledge of and equal access to training, career selection and investment and pension options. All of these issues must be addressed in budget policy formation.

Mr. Speaker, continued rapid labour force growth over the past ten years has made job creation a social and economic imperative in Ontario. Indeed, we have outperformed most other jurisdictions in this regard. We must continue to do so. In the midst of this sea of economic change, our labour force growth will continue to outstrip other mature industrial jurisdictions.

Projected Labour Force Growth Rates in Industrial Economies - 1984 to 1988



In summary, Mr. Speaker, this is only a brief glimpse at the mass of changes involved in the transformation of our economy. Many more will unfold. But one thing is certain. In this rapidly altering world, we will not return to what we have come to regard as "normal" in terms of the type of skills requirements, the organization of institutions or the structure of our economy. All these changes will demand imagination and creativity in our budget strategies.

Jobs and Economic Transformation

Economic transformation means first and foremost a transformation of our labour market. Service sector employment will continue to grow as will international trade in this vital sector. Many more jobs will be created in business and information services, in computer software, in engineering and marketing. Employment opportunities will also grow in industries that produce high-technology products -- in robotics, aerospace, telecommunications, ceramics, lasers and health technologies. The use of new production techniques will help to maintain the competitiveness of some of our basic industries. Yet, these industries will be compelled to restructure on the basis of new products and new methods of management. As a result, new skills will be required and growth in traditional employment will fall.

Industrial transformation, whatever its cause, inevitably destroys some jobs. But it can also create many more than it destroys. Budget and economic policies must focus on investing in the transformation to ensure that we gain the full benefits and realize the new job potential. We must make investments now, but make them for the longer term. Money spent on short-term, non-productive programs is money taken from long-term human resource development and industrial and financial restructuring.

The key to emerging from this transformation with full employment and a strong, wealthy and competitive economy is investment. We must invest now, before it is too late. And we must invest wisely: in skills training, innovation and long-term job creation.

Mr. Speaker, our Budget must seek:

- net job creation in the private sector in excess of new additions to the labour force;
- higher real incomes in a non-inflationary environment; and
- maintenance of the economic and fiscal capacity of the Province to finance priority social and environmental programs and to ensure our economic recovery.

We must create both more jobs and better jobs: secure jobs with high value-added. In a rapidly transforming national and international economy, achieving these goals requires budgets that encourage investment, skill development, innovation, competitiveness and greater community involvement. These are issues to which I now turn.

Encouraging Investment

Budgets can help to achieve an environment conducive to investment in at least three basic ways. The first is to avoid sudden, uncoordinated changes of direction in economic policy. For example, changes in the rules governing saving, investing and working must be pursued in a spirit of public consultation and intergovernmental cooperation. Stability and clarity in the "rules of the game" are even more critical in a period of rapid economic change. While the federal government has not always been responsive to this need, Ontario has consistently championed this fundamental objective. This Statement is a further effort to increase public participation in the development of our economic policy.

Second, budgets must ensure that the rewards to investing in Canada are comparable to those abroad, particularly in the United States. In part, this requires maintaining competitive tax rates. As outlined in Appendix C to this Statement, Ontario has done this. We must and will continue to do so.

Third, budget policy must not allow public sector domination of the economy. This demands sound financial management in the public sector, an issue to which I will return.

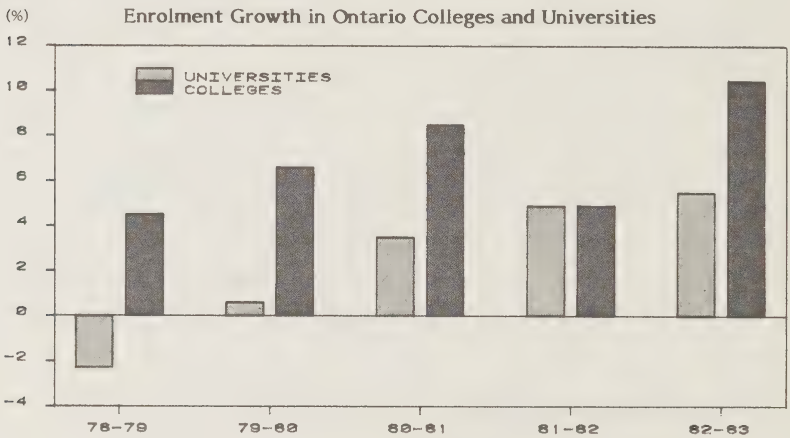
Investing in Human Resources

The internationalization of the economy has been accompanied by the growing mobility of capital and technology. People -- human resources -- tend to be less mobile. Therefore, future investment location decisions will depend increasingly on the availability of human skills and knowledge. These things will be the key determinants of national well-being.

Moreover, a rapidly-changing economic environment, coupled with a shifting composition of the labour force, also demand that a high budget priority be given to education, training and retraining. The current work force must be able to move from low skill levels to high skill levels, from declining firms and industries to expanding ones. As well, they must be able to adjust to new flexible production systems. Similarly, new entrants or re-entrants to the labour force will be more quickly absorbed if they have access to training or retraining.

Experience with our existing programs suggests that specific skills are often best acquired while on the job. Budget policy must foster this. At the same time, our colleges and universities are best at teaching core skills, learning techniques and knowledge which are essential to an individual's future adaptability to a changing economy. Growing enrolments reflect the widespread recognition of this fact. Accordingly, the ability of our colleges and universities to continue to respond effectively to these needs should be a high priority of social and economic policy.

Enrolment Growth in Ontario Colleges and Universities



We must continue to focus on training and education to resolve the critical problem of youth unemployment. Traditionally, young people have had significantly higher unemployment rates than those 25 years of age and older. This reflects lower levels of experience, fewer skills and more time spent in searching for a rewarding career opportunity.

Moreover, the recession of 1982 hit young people especially hard. Young workers typically suffered first. Lack of seniority led to early lay-offs and there were too few job opportunities for new entrants. This is not to minimize the fact that more senior workers also suffered large increases in their unemployment rate. But youth unemployment went up from a rate which was already high by comparison.

While the youth unemployment rate has dropped from 18.6 per cent in November of last year to 14.7 per cent this November, there are still 155,000 unemployed young workers in Ontario. This is unacceptable. We are resolved to speed the flow of young people into the general economic recovery. Again, however, a major focus should be to ensure that our youth acquire the skills and the experience to prepare them for the future as well as find immediate employment.

Economic recovery has brought about a sharp increase in the number of jobs for all age groups. As indicated earlier, the Province's job creation policies have accelerated this trend. Young people have been, and continue to be, the focus of much of our efforts. In 1983 alone, we have supported the creation of over 100,000 jobs for young workers.

ONTARIO YOUTH EMPLOYMENT PROGRAMS, 1983-84

	Funding ($ million)	Jobs
Ontario Youth Employment Program (OYEP)	30.4	55,000
Ontario Career Action Program (OCAP)	17.8	13,200
Summer Experience Program (SEP)	12.0	9,200
Winter Experience Program (WEP)	4.8	1,800
Ontario Junior Ranger Program	5.0	1,700
Summer Replacement and Co-op Students	24.9	6,900
Young Ontario Career Program (YOCP)	25.0	12,500
Other Special Programs	1.1	400
TOTAL	121.0	100,700

Source: Ontario Treasury.

Although funding for most of the existing programs is now fully committed, some of our new initiatives, for example, the Young Ontario Career Program, still have thousands of openings. Furthermore, other 1983 job-creation initiatives are still on-stream, or coming on-stream, and are providing new jobs daily. We believe there is a need to provide still more training and job opportunities for young people -- particularly during the winter months. I will announce appropriate improvements to our existing programs and some new initiatives within the next few weeks.

In addition, at our meeting in Montreal, Ministers of Finance agreed to explore innovative ways to use Unemployment Insurance funds and Canada Assistance Plan funding for job creation.

Increasing Productivity and Competitiveness

The international environment has placed renewed emphasis on enhancing our international competitiveness. There are two central elements to this task. The first is to increase productivity. The second is to ensure that our income demands do not outstrip the gains in productivity. Increasing competitiveness is the surest way to produce more jobs and higher real incomes.

Employment Growth and International Competitiveness

All industrial jurisdictions have experienced a trend decline in productivity growth over the past ten years. Increased energy prices played a role. Also, the work force has grown so rapidly that the amount of capital per worker has fallen. But these do not explain all, or even most, of the decline in productivity growth. A substantial part of the decline was due to a slowdown in both technical innovation and the adoption of new techniques of organization.

Yet this is beginning to be reversed. For example, the world is now entering a period of intense technological innovation. Recent advances in microelectronics, computer-aided design, fibre optics, ceramics, robotics, information processing and biotechnology are just the beginning.

We must develop budget and economic policies to accelerate this wave of innovation. The world economy is becoming a competition in which the first to introduce new technologies gain large market shares which then yield the dividends for further innovation and further expansion. We must invest in the business, research and technological skills necessary to ensure that our own high-tech industries will succeed in this competition.

Existing manufacturing industries are also undergoing a significant technological transformation. For example, the use of computer-aided design and manufacturing has become increasingly widespread, particularly in the machine tool industry, the automobile and aerospace industries and the resource sector, but it also has important implications for more traditional industries such as footwear. Our budget policy must seek ways to catalyze these changes.

Mr. Speaker, it is not enough simply to focus on increasing productivity through technological innovations and human resource development. Our economic policies must also play an active role in the reduction of domestic inflation. The public sector wage restraint program and the restraint of administered price increases have helped substantially. They reduced double-digit cost escalation in the public sector. And, in combination with a similar federal program, they reinforced moderating trends in wage and price pressures in the private sector.

It would be wrong to believe, however, that inflation is no longer a problem. We know that inflation can cost jobs through the loss of international competitiveness. Canada continues to be in some danger in this regard. Since 1980, we have lost competitive ground relative to our trading partners. Renewed inflation will put all of our markets, both at home and abroad, at risk.

Deliberately creating recession to control inflation entails huge costs. There is little doubt that the deep recession just ended was partly the result of restrictive monetary policies in the United States and other industrial countries, including Canada. Those policies were a response to double-digit inflation set off by the 1979-80 round of international oil price increases.

Despite the recent decline in inflation, there is no guarantee that we will not face similar kinds of disturbances again. Yet we have seen what enormous

costs, in terms of lost output, jobs and human suffering, our present national and international monetary approaches entail.

This budget process must begin a serious search for new public policies to encourage a closer link between income gains and productivity increases. Perhaps this can be accomplished through vehicles such as profit-sharing arrangements. In any case, now is the time to hear new ideas. The jurisdiction that resolves this most fundamental issue will insulate itself from foreign disturbances, gain a major competitive edge and free itself from the tyranny of restrictive monetary policy. We are prepared to be innovative and creative -- I say this as both a statement of intent and a challenge to business and labour.

Focussing on Community Development

Mr. Speaker, I believe that Ontario's economy is based on distinct economic communities. Each has its own unique resources, opportunities and problems. Each represents a complex interaction of major industries, local suppliers, services and human resources. Each exports and imports. Each represents the nucleus for a creative response to economic transformation.

Communities can develop a threshold of economic activity that suddenly accelerates into an ever-expanding interaction of new investments, innovative spin-offs and new skills development. Famous examples can be found in the "Silicon Valley" in California and Route 128 around Boston. We have our own examples in the Ottawa Valley, in Toronto, London and Kitchener-Waterloo, among others. The idea is to create many more such examples, each with its own unique characteristics, each accentuating its own human and natural resource base.

As the industrial transformation proceeds, we believe that the community must become an even more integral part of the process of facilitating and investing in this change. New technology, with its impact on skills and competitiveness, can accelerate development everywhere in Ontario. It can improve productivity and competitiveness in the agricultural and resource regions of the province, accelerate investment and change in our industrial heartland and provide new opportunities in the service sector.

Our success in capitalizing on the opportunities of the 1980s will depend critically on the involvement of our municipalities in this process of adaptation and change. Accordingly, we are actively considering new policies involving flexible community development assistance centred around new enterprise areas and geared to local enterprise and initiative. I invite comment on how we might implement these ideas.

Mr. Speaker, in 1980 this Government created the Board of Industrial Leadership and Development (BILD), a committee of Cabinet charged with the task of marshalling provincial resources to support and facilitate the industrial transformation underway in Ontario. Appendix B to this Statement documents the program of investment in human resources, industrial competitiveness and community development initiated by the Board.

IV SPRING BUDGET - 1984

Finding Flexibility to Invest

Mr. Speaker, I turn now to our capacity to invest in economic transformation. Making strategic investments without jeopardizing our fiscal stability will present a major challenge for the 1980s. In assessing our ability to meet this challenge, I would like to review our current fiscal situation and the deficit.

In terms of fiscal policy, some will suggest that the economy requires added stimulus and that the deficit should be allowed to rise. Others will argue that growing deficits are inflationary, contributing to higher rates of interest and impeding long-term economic growth. In order to assess these options, we must look at the deficit level from several standpoints, including historical trends and comparative performance.

ONTARIO'S DEFICIT HAS BEEN STABLE
IN RELATION TO THE SIZE OF THE ECONOMY

	Deficit ($ billion)	Deficit As A Per Cent Of Gross Domestic Product
1975-76	1.8	3.1
1977-78	1.8	2.4
1979-80	0.6	0.6
1982-83	2.5	2.1
1983-84 (Estimated)	2.7	2.0

Source: Ontario Treasury.

While our deficit has increased during the past two years, and this is a matter of concern, the increase since 1975-76 has been far lower than that experienced at the federal level in the United States and Canada, as well as by

other Canadian provinces. Further, as a proportion of Gross Domestic Product, our deficit is less than it was in 1975-76.

In the United States, by comparison, the financial needs of the government have grown sizeably since 1975-76. For the past two years, the United States deficit has stood at about $200 billion (6.3 per cent and 5.4 per cent of the economy). This is the highest level since the Second World War.

This is a major source of concern, as public sector financing requirements may dominate capital markets, crowd out private borrowers and place upward pressure on interest rates. Such developments would impede economic recovery and place further pressure on Ontario's deficit.

THE UNITED STATES DEFICIT IS AT RECORD LEVELS

	Deficit ($ billion)	Deficit As A Per Cent Of Gross National Product
1975-76	88.5	5.2
1977-78	59.2	2.7
1979-80	73.8	2.8
1982-83	207.7	6.3
1983-84 (Estimated)	193.7	5.4

Source: United States Office of Management and Budget.

Recent experience at the federal level in Canada is equally disturbing. The federal government's cash requirements or deficit is estimated at $27 billion for 1983-84, or 6.7 per cent of the Gross National Product -- well above the 2.9 per cent level recorded in 1975-76.

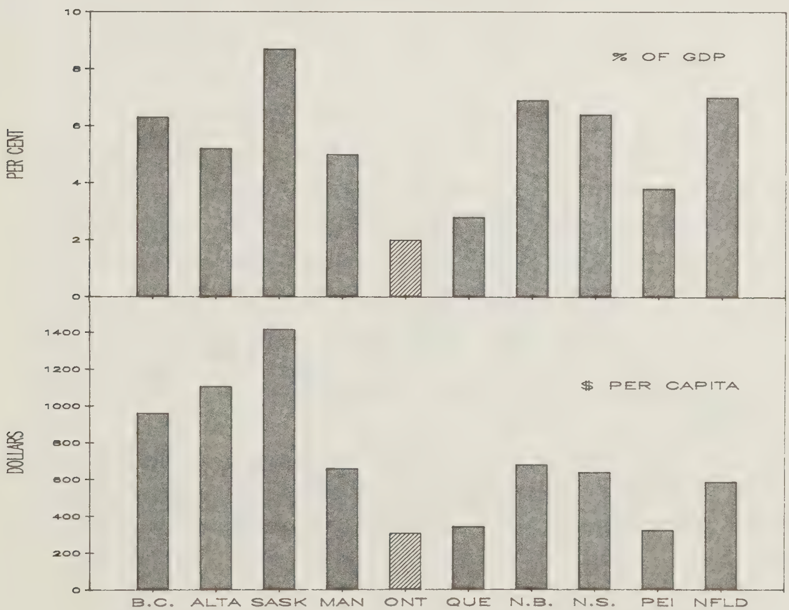
THE FEDERAL DEFICIT CONTINUES TO GROW

	Deficit ($ billion)	Deficit As A Per Cent Of Gross National Product
1975-76	4.8	2.9
1977-78	8.4	4.0
1979-80	10.4	4.0
1982-83	23.3	6.5
1983-84 (Estimated)	26.7	6.7

Source: 1983 Federal Budget.

When we compare our deficit level with other provinces on a per capita basis, or in relation to the size of the economy, we are in the most favourable position.

Ontario's Deficit Compares Favourably with Other Provinces in 1983-84



In recognition of our strong economic base and commitment to sound fiscal management, Ontario continues to have the highest possible credit rating.

Our triple A credit rating has enabled us to obtain the best possible terms, conditions and provisions on financing; borrow at lower rates; and choose among a wide range of markets. For taxpayers, this has meant a much lower burden of public debt interest.

PROVINCIAL CREDIT RATINGS

	Standard and Poor's	Moody's
Ontario	**AAA**	**Aaa**
British Columbia	AA+	Aa1
Alberta	AAA	Aaa
Saskatchewan	AA+	Aa1
Manitoba	AA-	Aa
Quebec	AA-	A1
New Brunswick	A+	A
Nova Scotia	A	A
Prince Edward Island	N/A	N/A
Newfoundland	A	Baa1

Sources: Standard and Poor's Corporation.
Moody's Investors Service.

Last week, all Ministers of Finance agreed that the continuation of deficits is a matter of concern to all governments in Canada. I believe that our deficit level must be reduced over a period of time. In assessing our capacity to achieve this objective, I would like to outline the relationship of our deficit levels to capital expenditures as well as examine current trends in budget spending.

First, I will deal with capital investments.

Government has a clear responsibility to provide many social services as well as to influence and encourage economic growth. As such, we are a major investor in basic infrastructure, from hospitals and schools, to roads and serviced land.

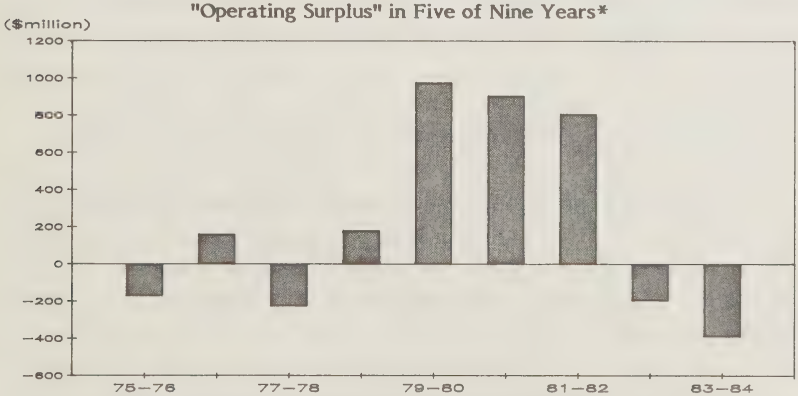
In private industry, it is an accepted principle that the cost of capital investments be amortized or spread out over a period of time. In government, we do not use this accounting principle. Public sector capital costs are treated as current expenditure and written off, as it were, on a 100 per cent basis in the first year.

While that is the accepted basis for public sector accounting, it tends to obscure the long-term economic and social benefits associated with such investments.

Therefore, it is important to examine our budget from the perspective of capital spending. In fact, cash requirements have been less than capital investment in five of the past nine years. In some jurisdictions, this would be called an "operating surplus".

While the deficit issue is not as onerous when viewed from this perspective, in no way do I wish to minimize our concern about current deficit levels. Although the deficit was less than capital spending for four years, up to and including 1981-82, our cash requirements have risen above capital spending in the past two years. That was appropriate given the need to stimulate the economy and maintain our programs of social assistance. But now we must strive to reduce the deficit below our level of capital investment.

"Operating Surplus" in Five of Nine Years*



* The position of the bars is calculated by subtracting cash requirements from total capital investment in each fiscal year.

A policy of deficit reduction should concentrate on containing expenditures rather than increasing taxes.

Yet when we examine which major areas of government spending can be further reduced, we must bear in mind that the largest proportion of our expenditures is already committed for health, education, social services and local governments. A policy of massive expenditure reduction would clearly affect these important services. To date, we have chosen not to pursue such a course of action. While we have restrained growth in these areas we have maintained realistic levels of support.

To continue this we must, and will, increase transfer payment levels next year -- a subject to which I now turn.

Transfer Payments for 1984-85

On November 8, I announced that next year our transfer payments to municipalities, school boards, universities and other publicly-funded institutions, as well as allocations for our own civil servants, will provide for average compensation increases of up to 5 per cent.

I also informed Members on an earlier occasion that, in response to the requests of transfer recipients, the levels of transfer payments would be announced before the end of this calendar year. Today, I wish to outline the percentage increases in a number of these payments. My colleagues, the Honourable Bette Stephenson, the Honourable Claude Bennett and the Honourable Keith Norton, will provide further details to recipients and others.

Before determining these allocations, my colleagues and I met with many groups affected by the transfers, including the Ontario Hospital Association, the Council of Ontario Universities, the School Trustees' Association and the Association of Municipalities of Ontario. We thank them again for their valuable advice and counsel.

While the transfer levels I am announcing incorporate a five per cent increase for average compensation, we have considered other important factors

affecting the funding requirements of some transfer payment programs. Those factors include changes in public utilization as well as program expansions and reductions. In addition, we should remember that some payments, such as per capita grants, are not tied directly to the costs of services.

I would also like to emphasize that these are all average figures. They apply to the total amount transferred by the Province. Individual institutions will receive different percentage increases based on individual circumstances.

Therefore, recipients should not expect all transfer payments to increase by 5 per cent next year.

First, I will deal with education. Operating grants to the university sector will be increased by 6.5 per cent next year. This reflects the 5 per cent wage and salary guideline plus additional requirements.

Colleges of Applied Arts and Technology will receive an average 7.5 per cent increase, also reflecting wage guidelines and other requirements.

In the case of school boards, the growth rate in the General Legislative Grant will be 5 per cent.

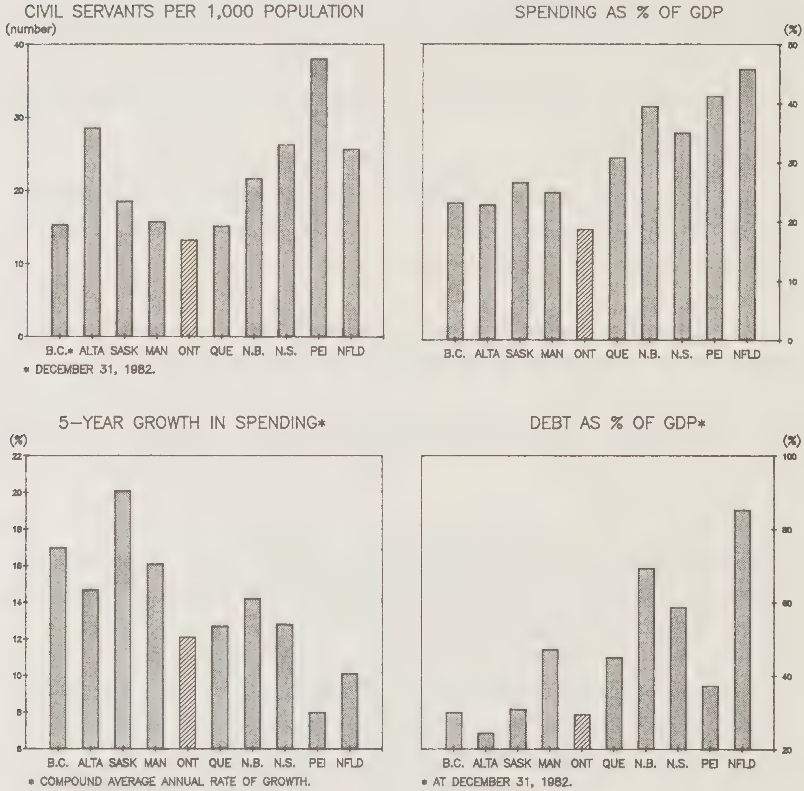
Turning to the health sector, we plan an average increase of 8 per cent in operating grants to hospitals in 1984-85. This is designed to accommodate the 5 per cent guideline as well as full implementation of programs previously in place and growth in utilization.

Finally, turning to municipalities, I wish to indicate that the percentage increase in unconditional grants in 1984-85 will be 5 per cent. Details on other municipal grant programs will be announced over the next few weeks.

We believe we have developed a framework designed both to contain costs and provide realistic and fair compensation for those employed in the public sector. In the end, however, all of us, both employers and employees, have an individual responsibility to exercise restraint. Further, we must continue to ensure that high-quality services are delivered to taxpayers in the most cost-effective way possible. Efficiency in government is a priority at all times, not just during a period of restraint.

This, of course, has been a major focus of our fiscal policy. And when our expenditures are examined in relation to those of other Canadian provinces, it is clear that we have achieved considerable efficiency.

Ontario Continues to Lead Canada in Fiscal Restraint in 1983-84

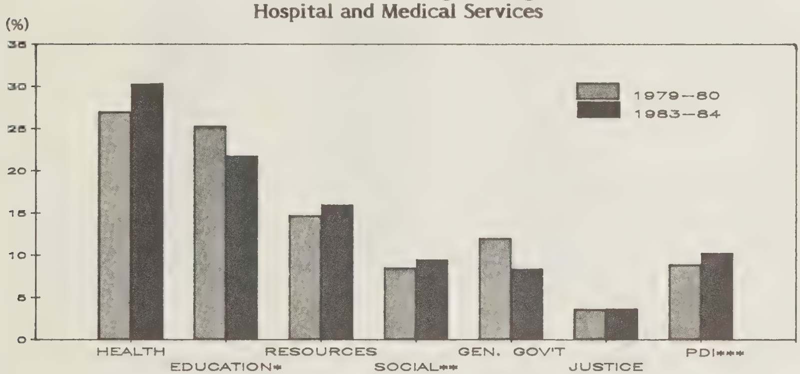


In assessing the scope for further efficiencies, the Members will be interested in some recent trends in our programs.

Spending on hospitals, medical services and other health care programs takes a significantly larger share of the budget today than four years ago. Resource programs and social services also occupy a greater proportion of total spending.

Relative spending on education has reflected flattened growth in enrolment. However, the decline in budget share has been concentrated in the general government expenditure category, where we have continued to trim overhead costs.

Greater Share of Budget Going to Hospital and Medical Services



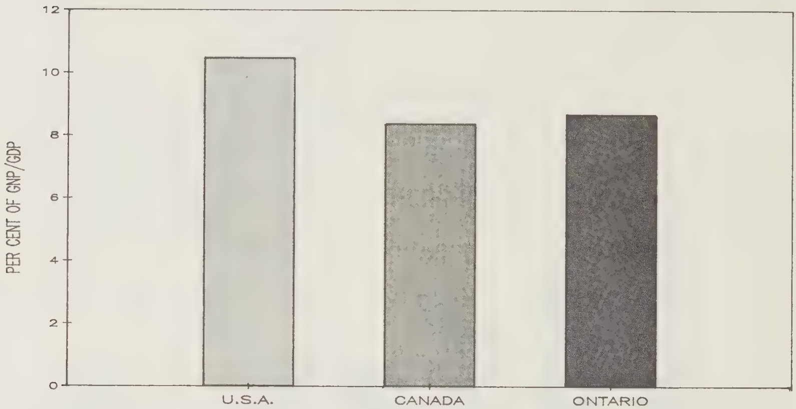
* INCLUDES COLLEGES AND UNIVERSITIES
** COMMUNITY AND SOCIAL SERVICES
*** PUBLIC DEBT INTEREST

In the future, it is likely that we will still have to direct an increasing proportion of the Provincial budget to health care. This is due in large part to shifts in the age structure of our population. In 1981, those aged 45 and over comprised 30 per cent of the population. By the year 2006, an estimated 43 per cent of the population will be in that age group. This suggests that any major reductions in health spending are unlikely and inappropriate. My colleague, the Minister of Health, is undertaking important efforts to realign the system so that

it reflects these demographic shifts while enabling us to control cost increases. But this will require great cooperation from all.

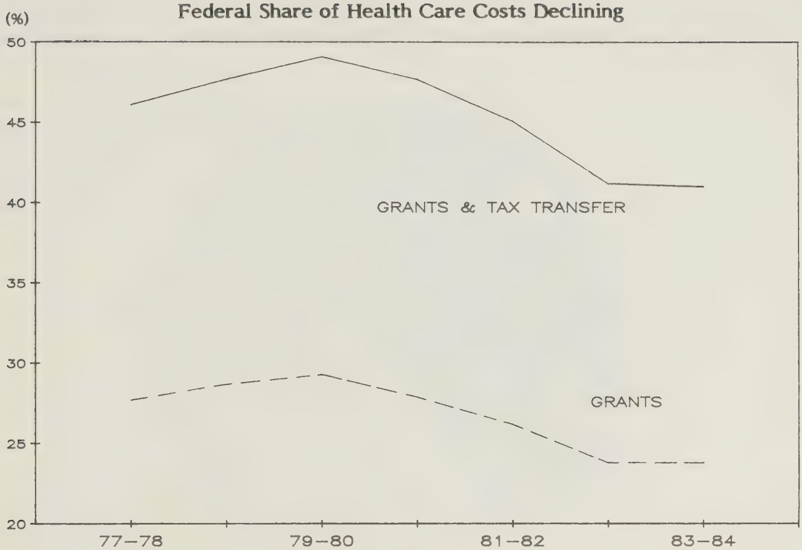
While health care continues to take a large and increasing share of our budget, health spending in Ontario, including private spending, is not out of line with the rest of Canada. When measured in relation to the economy as a whole, total public and private expenditures in this area are considerably less than health care spending in the United States.

Health Spending in Ontario is Higher than Canadian Average but Lower than the United States



While on the subject of health care, I wish to reiterate our concern over the federal government's failure to pay a fair share of the costs in this area. Since 1979-80, Ottawa's share of Ontario's health care costs has declined from more than 49 per cent to 41 per cent. These figures include the 1977 "tax transfer" as well as the recently-announced payment of funds owed by the federal government. In terms of cash alone, federal grants now cover only 24 per cent of Provincial health care costs. Further, the new federal health legislation would empower the federal government to reduce health care funding even more by way of regulation.

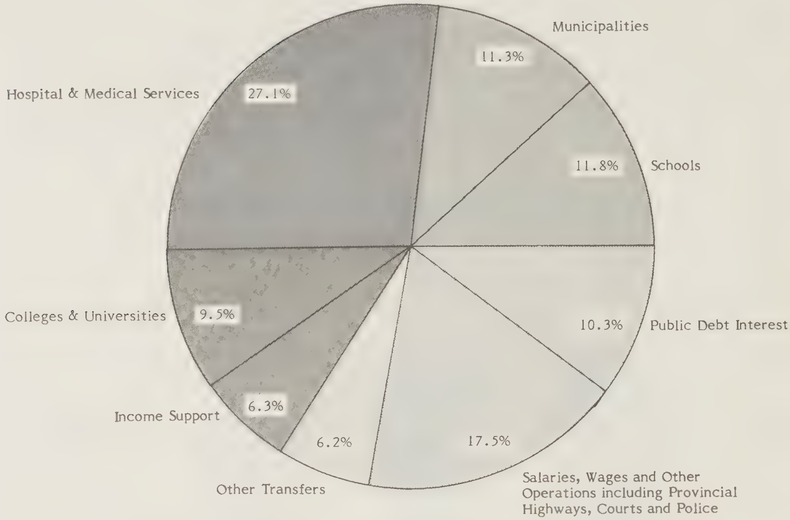
Federal Share of Health Care Costs Declining



Because of their large share of the budget, health care costs have implications for all areas of government spending. Unless the federal government increases its levels of health care funding, other programs may face a declining share of the Provincial budget or taxes may have to be raised.

As I indicated earlier, our flexibility to effect further reductions in government spending will be severely limited by the major portion of the budget committed to local governments, education and services for people. These allocations, when combined with public debt interest, account for about 82 per cent of the budget. Out of the remaining 18 per cent, we must pay for programs such as the administration of justice and provincial highways, as well as salaries and wages.

Expenditures Oriented to Health, Education, Local Governments and Social Services 1983-84



Nonetheless, it may be in areas such as these that we will have to find the scope for further efficiencies. As our discussions continue, I look forward to advice and suggestions from the public on ways in which we can further reduce government spending.

At the same time, we will examine the issue of taxation. In so doing, we must be very sensitive to the negative impact tax increases can have on individuals and businesses -- particularly during a period of recovery.

For example, an increase in the sales or personal income tax could retard consumption growth. An increase in corporations income tax could slow down capital investment. Alcohol and tobacco taxes are already quite high, and further increases could have a negative impact on the tourism industry and tobacco farmers.

In any discussion of tax increases, we must also keep in mind the need to maintain a competitive business environment -- one that continues to attract

job-creating investment. Appendix C to this Statement compares our tax levels with those of other provinces and industrialized American states.

Before leaving the subject of taxation, Members will recall that in the 1983 Budget my colleague, the Honourable Frank Miller, announced that a review of the mining tax and the SBDC program would be undertaken. That process is now underway, and I look forward to further public input in these two areas.

Budget Outlook for 1984

In discussing the dimensions of our 1984 Budget, I would like to outline the guidelines within which we must operate.

First, budget policy must be developed within the framework of estimated overall expansion in the economy which, of course, is the basic determinant of revenue growth. Experience has shown that in the absence of taxation changes, our revenues increase at a rate slightly lower than the growth rate of GPP.

Second, we must keep in mind the major transfer payments I have just outlined as well as the compensation guideline announced in November. These commitments plus our allocation to medicare will account for more than 50 per cent of our expenditures in 1984-85.

And third, in my opinion, we have to contain and reduce the deficit. For reasons I outlined earlier, it was appropriate to allow the deficit to increase during the recession. Now that the economy is growing, however, the level of our deficit, I believe, must be stabilized or reduced.

The preliminary forecast for 1984 indicates that revenues will be $24.1 billion, an increase of 8.2 per cent. This represents the amount that will be yielded by taxes and other sources of revenue and assumes no change in various taxes and bases.

Clearly, this amount of revenue will restrict our flexibility. If, for example, we were to allow expenditures also to increase by 8.2 per cent -- reflecting the rate of growth in revenues -- the deficit would rise to over $2.9

billion. We must, in my view, take steps to stabilize or reduce, not increase, our deficit next year.

In examining Provincial borrowing requirements, it is necessary to take into account borrowing by Ontario Hydro. This is an important factor in the determination of capital availability, in the assessment of our credit rating and in the long term interest costs borne in total by our citizens.

After careful review and evaluation of its current borrowing plans, I have indicated to Ontario Hydro that I need them to reduce their 1984 borrowings by $200 million. Hydro has agreed to do this.

V CONCLUSION

Mr. Speaker, I would like to conclude this pre-budget Statement with the following thoughts.

The challenges we face today are formidable.

Unemployment among young people is a serious and complex problem. Overall rates of unemployment are still too high. The pressures of inflation remain. Deficit levels for all governments must be reduced. There is massive industrial transformation underway.

In this report, we have presented an analysis of Ontario's economy and public finances. In so doing, we have established the framework for meaningful discussions on budget policy. I am confident that out of those discussions will come a budget that makes an important contribution to our goals of sustained recovery, long-term growth and new job creation.

Further, budget policy must also address our social priorities. It must address those priorities directly through sensitive and creative tax policy, and indirectly by helping to create a dynamic economic environment which generates sufficient revenues to support and expand our social systems.

We believe that by creating clear incentives for investment, we can help to ensure continued growth and provide for the needs of our people.

We should not delude ourselves into believing that government budget policy can, by itself, guarantee employment growth and economic recovery. We will also need the dedication and commitment of those in the private sector -- both labour and business. They will have to be as efficient as they expect government to be. They will have to restrain their own prices and wages as they expect us to restrain taxes and expenditures.

They will have to invest in our economy. They will have to invest in their businesses, in their jobs, in equipment, in people, in innovation, in skill training, in cooperation itself.

We will encourage this investment to the best of our ability. But in the end, it will require the commitment and determination of all Ontarians.

Our objectives are clear. To find ways of meeting those objectives, we are asking for constructive advice and creative ideas from all segments of our economy and from people in all parts of the province.

This document has been prepared to encourage that input. Every suggestion we receive will be carefully considered as we prepare the social and economic document that will be the 1984 Ontario Budget.

APPENDICES

APPENDIX A

CURRENT INDUSTRY DEVELOPMENTS AND SECTOR FORECASTS

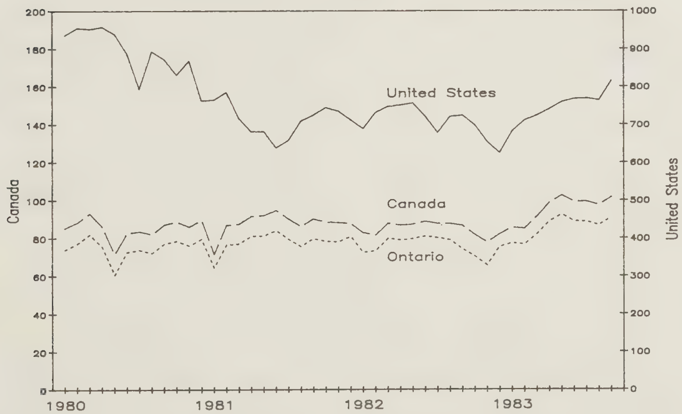
Introduction

The significant recovery of the past months is clearly evident in a number of Ontario industries and the outlook for 1984 is a continuation of the present growth. This appendix provides an overview of current developments and outlooks for selected industries having major economic and regional significance.

Auto Industry

Canadian production of cars and trucks for 1983 is scheduled to reach its highest level since 1979 and will be 20 per cent higher than last year. For 1984, North American domestic vehicle sales are expected to advance 6 per cent over 1983. All Canadian automotive assembly plants of the Big Three are expected to continue or even increase production levels in 1984.

Employment in the North American Automotive Industry (thousands)



Already in the first half of 1983, Canada has registered a half-year surplus of \$1.52 billion in its automotive products trade with the U.S. This compares to a year-earlier surplus of \$1.16 billion and a \$1.6 billion deficit during the first half of 1981. Canada had a surplus under the Auto Pact in 1982, for the first time since 1972. On the basis of performance to date, another large surplus is expected for 1983.

North American large car demand is expected to decline in favour of smaller cars over the next two years. Since Canadian production capacity is generally shifting from large to intermediate size vehicles, Canada will be well placed to continue its favourable performance in the automotive sector through 1984.

Steel Industry

Capacity utilization in the steel industry is almost 20 per cent above the average capacity utilization rate for 1982 as a result of an increase in overall demand for steel. Over the past twelve months, there have been improvements in employment levels at mills producing steel used for the production of consumer goods.

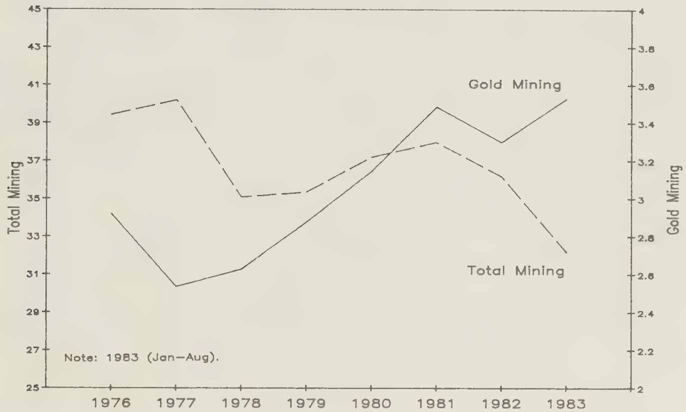
In the first eight months of this year, demand for various hot and cold rolled products improved by as much as 30 per cent over the comparable period a year ago. However, demand for some other products such as plate and large diameter pipe is still depressed. Canadian steel consumption is expected to recover by 11.2 per cent to 9.4 million tons in 1983 and to 10.7 million tons in 1984. Compared to most international producers, the outlook for Ontario steel producers is positive.

Mining

The mining sector in Ontario, having experienced a severe downturn, is on a path of recovery. Base metal mines, which are the largest mineral sector employers in Ontario, are operating at 70 per cent capacity after prolonged shutdowns.

Existing gold mines are undergoing or have recently completed expansions, and new mines are being developed. Average monthly employment in gold mining is at the highest level since 1976. Another growth area is industrial minerals production, especially talc and calcium carbonate.

Mining Employment in Ontario
(thousands)



The short-term outlook for the mining sector is mixed. Precious metals and industrial mineral mines are expected to show continued strength throughout 1984. Base metals are expected to continue to recover as well, but at a slower pace. The uranium mining sector is relatively stable because of long-term supply contracts.

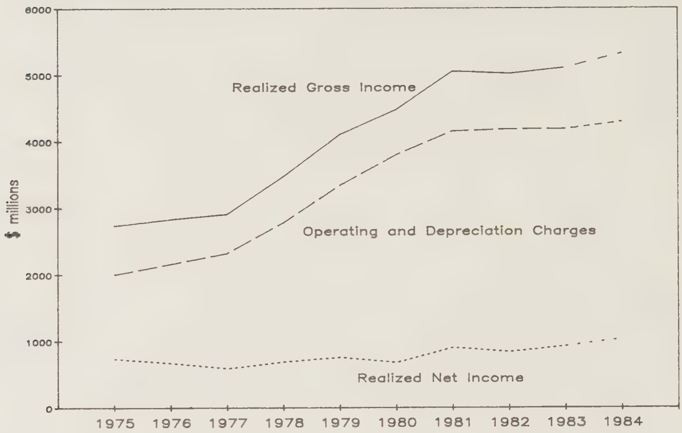
Agriculture

Ontario's realized net farm income in 1984 is expected to be above 1983 levels, reflecting some increase in farm cash receipts from both crops and livestock, and relatively little change in farm expenses. Realized net farm income for 1983 is expected to increase by 10. 6 per cent over 1982.

Corn and soybean prices are currently up and are expected to remain high through at least the first half of 1984, with some softening during the latter half of the year.

Cattle prices showed strength through early 1983; however, some weakening occurred during the summer and fall. Low Canadian cattle inventories imply that a decrease in slaughter levels can be expected through 1984, accompanied by some price increase during the latter half of the year. Similarly for the hog market, the outlook is for some price recovery in late 1984.

Ontario Farm Income



Farm Machinery

The industry-wide recession which began in 1980 has forced farm machinery manufacturers to rationalize and cut costs at all levels of operation. While the recession in farm machinery sales continues, there is likelihood of some improvement in 1984 as a result of strengthened prices in major grains and lower interest rates, in combination with pent-up demand for new equipment.

Lumber

After three years of depressed house construction activity, North American housing starts in the first 9 months of 1983 totalled 1,433,000, up 67 per cent from the same period last year. With the pick up in housing starts, Ontario lumber shipments have increased 10 per cent over last year, while

exports to the United States have increased 18 per cent. The outlook for 1984 is for continued improvement. This will bring Ontario lumber producers back to more normal operating and profitability rates.

Pulp and Paper

The pulp and paper industry experienced one of its worst years on record in 1982, but is showing significant improvement in 1983. Shipments for the various grades of pulp and paper are running 5-15 per cent higher than last year, and mill operating rates are in the range of 84-91 per cent, compared to 76-83 per cent last year. Industry profitability is still hampered by depressed prices, but a number of pulp producers expect to obtain an 11 per cent price increase on January 1, 1984, and at least one major newsprint producer has announced plans for a 7 per cent increase on March 1, 1984. These price increases, together with continued improvement in shipments and operating rates, should result in improved financial results in 1984.

Tourism

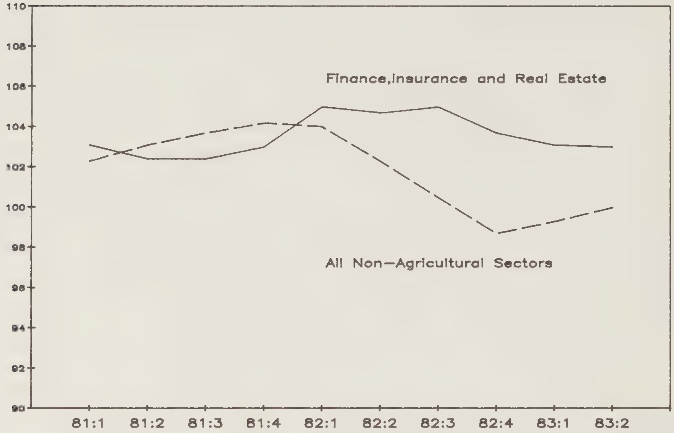
Following more than a year of relative decline, monthly Ontario occupancy rates levelled out in the third quarter of 1983. United States travel to Ontario, after remaining relatively static for four years, appears to be on the rise. The number of United States residents entering Ontario by auto and staying one or more nights during the first eight months of this year was up 1.5 per cent from last year; in September it was up 7.1 per cent. The Conference Board's latest Survey of Consumer Buying Intentions shows 20.3 per cent of Ontario households are planning to travel within the province during the next twelve months. This is significantly higher than last year's 14.9 per cent.

Finance and Insurance

Ontario's employment in this sector has been stable throughout the recent recession. Adjustments to the pressures of recession have largely come from restraints on labour earnings and this should spur another round of steady

job creation as the economic recovery gathers momentum. The latest outlook by the Conference Board anticipates an improvement of more than 2.0 per cent in real output in this sector's performance during 1984.

Index of Ontario Employees (1980=100)



APPENDIX B

BOARD OF INDUSTRIAL LEADERSHIP AND DEVELOPMENT

	Commitments To Date ($000's)
Electricity	
Upgrade transmission facilities	332
Institute of Hydrogen Systems	8,600
Bruce Energy Centre	16,385
Rural electrical rates	20,000
Fusion Fuel Technology	4,120
	49,437
Transportation	
Intermediate Capacity Transit System (ICTS) for Toronto	90,000
Acceleration of improvements to Golden Horseshoe roads	125,000
Commuter rail line upgrading	7,600
Municipal Airport Improvements	14,500
UTDC equity purchase	32,100
Dry Dock Construction	12,500
Transit Control Systems	5,000
Lake Ontario Roll-on, Roll-off Service	1,500
Harbour Development	10,100
Interregional Rapid Transit	18,800
	317,100
Resources	
Food Processing Facilities	20,000
Facilities for storage of perishable fruits and vegetables	20,000
Modernization of whey processing facilities	15,000
Farmers Market Expansion at the Ontario Food Terminal	2,000
Acceleration of Forest Management Agreements	14,700
Forest Improvement Program	35,000
Tree nurseries and seedling production facilities	10,000
Ontario Institute for Biomass Research	4,000
Hybrid Plantations	3,400

	Commitments To Date ($000's)
Custom Gold Mills	10,000
Mineral exploration and technology	5,000
Drill core storage	5,000
Hydrocarbon resource inventory	12,300
Industrial minerals	7,700
Remote Sensing	600
Renewable Resources Research Grants	600
Wood Technology	600
Seed Potato Facilities	460
Forest Protection	18,300
Pulp and Paper Modernization	4,234
	188,894

Technology

Ontario Research Foundation	1,600
Allelix Inc.	30,000
IDEA Corporation	107,000
Ontario Centre for Microelectronics Technology	20,100
Ontario Centre for Automotive Parts Technology	15,600
Ontario Centre for Advanced Manufacturing	40,000
Ontario Centre for Farm Machinery and Food Processing	14,500
Ontario Centre for Resource Machinery	20,100
High technology development loans	50,000
Development of microtechnology for educational purposes	10,330
Toxicology Institute	10,300
Office of the Future	230
Export financing	25,000
Telidon applications	6,950
Marketing Technology	2,400
Special Industrial Assistance	9,900
	364,010

	Commitments To Date ($000's)
People	
Training in Business and Industry for high technology skills (TIBI II)	17,800
Equipment for Colleges of Applied Arts and Technology	24,000
International Marketing Interns	7,500
University research equipment	17,500
Community-based youth counselling centres	11,700
High-technology equipment for Agricultural Colleges	1,250
Executive MBA	200
	79,950
Community	
Community economic development studies	1,000
Community Development Corporations in rural areas	600
Metropolitan Toronto Convention Centre	37,500
Canada's Capital Congress Centre	10,800
Restoring heritage properties	8,500
Library resource enrichment	3,371
Tourism upgrading	9,800
Marketing tourism in Ontario	10,000
Regional infrastructure	4,700
King Mountain	9,200
Future directions for Canadian National and Central Canada Exhibitions	450
Marina Development	30,000
Theme Resorts	6,350
Domed Stadium Study	300
	132,571
Total Commitments to Date	1,131,962

APPENDIX C

COMPARATIVE TAXATION LEVELS

MAJOR TAX RATES ACROSS CANADA
(per cent)

	Personal Income Tax[1]	Corporate Income Tax General	Corporate Income Tax Small	Sales Tax	Health Premiums/ Payroll Tax[2]	Gas
British Columbia	44.0	16	8	7	H	20
Alberta	43.5	11	5	0	H	0
Saskatchewan	51.0	14	10	5	-	0
Manitoba	54.0	16	10	6	P	19[3]
Ontario	48.0	15	0	7	H	20
Quebec	79.4[4]	5.5	3	9	P	30
New Brunswick	58.0	14	9	10	-	20
Nova Scotia	56.5	15	10	10	-	20
Prince Edward Island	52.5	10	10	10	-	22
Newfoundland	60.0	16	12	12	-	22

(1) At 1984 tax rates. Following surtaxes also applicable: 10 per cent of B.C. tax in excess of $3,500; 12 per cent of Saskatchewan tax over $4,000; 20 per cent of Manitoba tax over $2,675; and 5 per cent of Ontario tax over $110.80.

(2) Ontario levies yearly health care premiums at $340.20 for a single person and $680.40 for a family. Similary, Alberta's premiums are $168 and $336 per year. In B.C., a single person pays $192, while families of 2 pay $360 and families of 3 or more pay $408. Manitoba has a payroll tax of 1.5 per cent, and Quebec's health care payroll tax rate is 3 per cent.

(3) An approximation; Manitoba levies a specific tax (cents per litre).

(4) Estimated rate of tax for a married taxpayer with two children earning $20,000. For most other income classes and types of taxpayers, Quebec's estimated equivalent tax rate is in the 70 to 85 per cent range.

Source: Ontario Treasury.

CORPORATE INCOME TAX RATES ON MANUFACTURING:
ONTARIO AND KEY AMERICAN STATES
(per cent)

	Federal-Provincial/State Rate
Ontario	44.0
New York	51.4
Pennsylvania	51.7
Ohio	51.0
Michigan	47.3
Georgia	49.2
California	51.2

Note: Though the degree of similarity between the Canadian and U.S. tax systems depend on the specifics of each case, the above rate advantage combined with important features of the Canadian tax base means Ontario's tax system is competitive with the U.S. across a broad range of manufacturing activity.

Source: Ontario Treasury.

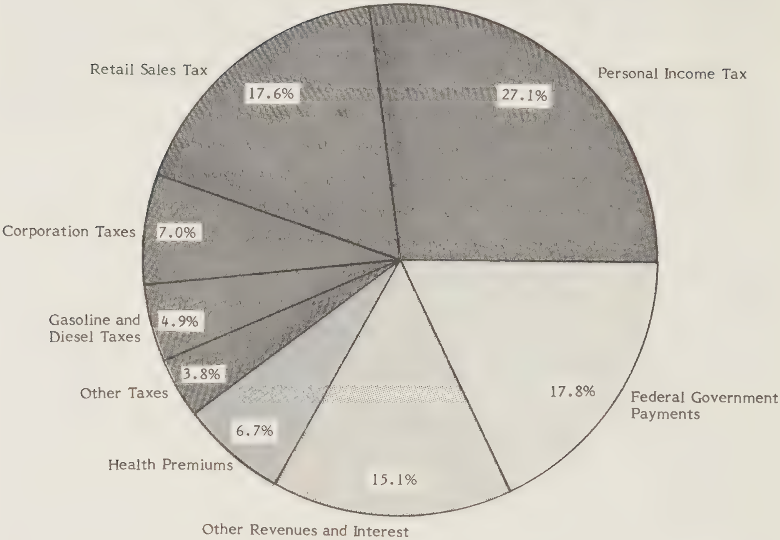
PERSONAL INCOME TAX BURDENS, 1983
(dollars)

Income	Ontario	New York	Michigan	Ohio
15,000	594	2,335	2,507	2,520
25,000	2,997	3,908	4,139	4,347
40,000	8,412	7,117	7,186	7,742
75,000	24,204	19,452	19,220	19,644

Notes: Married taxpayer with two children under 18.
Municipal incomes taxes included where applicable.
Temporary surcharges included.
For U.S. jurisdictions, income and tax burdens are expressed in U.S. dollars.

Source: Ontario Treasury sponsored private study.

Sources of Ontario Revenue
1983-84



REVENUE YIELDS FROM A ONE PERCENTAGE POINT INCREASE IN TAX RATE(1)
($ million)

	Per Point Yield
Personal Income Tax	139
Retail Sales Tax (7 per cent rate only)	554
Corporations Income Tax	111
Gasoline Tax	47
OHIP Premiums ($1/$2)	54
Tobacco Tax	13
Alcohol, Wine and Beer(2)	16

(1) Estimated yields exclude the effects of the PIT surtax and the small business exemption, and assume that any change would be in effect for the full fiscal year.

(2) Revenue from LCBO markups and licence fee on brewers. Sales tax not included.

Source: Ontario Treasury.